2021

Volume 3

APAS MONTHLY

THIS MONTH

Season's greetings!

In this issue, Mr. Tapan Singhel, MD & CEO, Bajaj Allianz General Insurance, has presented his thoughts on 'Shape of Things to come: Impact of COVID-19 and Trends in General Insurance Industry'. We thank Mr. Singhel for his contribution to the APAS Monthly.

This month, the APAS column presents its views on 'Journey of NBFC Sector in India'.

The economic indicators showed mixed performance. Manufacturing PMI eased slightly to 57.5 in February from 57.7 in January. India's annual infrastructure output in February contracted by 4.6%. India's Index of Industrial Production (IIP) witnessed a contraction of 1.6% in January. PMI services rose to 55.3 in February from 52.8 in January, while composite PMI rose to 57.3 in February from 55.8 in January. CPI inflation rose to a 3-month high of 5.03% in February from 4.06% in January. WPI inflation rose to a 27-month high of 4.17% in February from 2.03% in January.

The Reserve Bank of India (RBI) released (1) Resolution of the Monetary Policy Committee (MPC) April 5-7, 2021 (2) Framework for processing of e-mandates for recurring online transactions (3) Guidelines on Regulation of Payment Aggregators and Payment Gateways.

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The Insurance Regulatory Development Authority of India (IRDAI) announced (1) Insurance (Amendment) Act, 2021 (2) Dividend Criteria for Equity Investment under "Approved Investment" (3) Standard products on Fire and Allied perils insurance business.

The Union Commerce and Industry Ministry extended Foreign Trade Policy 2015-2020 for 6 months till September 2021.

Securities and Exchange Board of India (SEBI) announced (1) Review of norms regarding investment in debt instruments with special features, and the valuation of perpetual bonds (2) Clarification on the valuation of bonds issued under Basel III framework (3) Review of delivery default norms (4) Guidelines for Business Continuity Plan (BCP) and Disaster Recovery (DR) of Market Infrastructure Institutions (MIIs) (5) Clarification on Transfer of business by SEBI registered intermediaries to other legal entity.

Our newsletter is focused on tracking the performance of the economy and the regulations and laws governing the Banking and Financial Services companies. We hope that this APAS Monthly is insightful.

We welcome your inputs and thoughts and encourage you to share them with us.

Ashvin parekh

On the cover

GUEST COLUMN

Shape of Things to come: Impact of COVID-19 and Trends in General Insurance Industry

Mr. Tapan Singhel
MD & CEO
Bajaj Allianz General Insurance

APAS COLUMN

Journey of NBFC Sector in India

ECONOMY

- ***Index of Industrial Production – January***
- ***Inflation update – February***
- ***PMI update – February***
- ***Core Sector – February***

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BANKING

- *Resolution of the Monetary Policy Committee (MPC) April 5-7, 2021*
- *Framework for processing of e-mandates for recurring online transactions*
- *Guidelines on Regulation of Payment Aggregators and Payment Gateways*

INSURANCE

- *Insurance (Amendment) Act,2021*
- *Dividend Criteria for Equity Investment under "Approved Investment"*
- *Standard products on Fire and Allied perils insurance business*

INFRASTRUCTURE & OTHER GOVT. INITIATIVES

- *Foreign Trade Policy 2015-2020 extended for 6 months till September 2021*

CAPITAL MARKETS

- *Review of norms regarding investment in debt instruments with special features, and the valuation of perpetual bonds*
- *Clarification on the valuation of bonds issued under Basel III framework*
- *Review of delivery default norms*
- *Guidelines for Business Continuity Plan (BCP) and Disaster Recovery (DR) of Market Infrastructure Institutions (MIIs)*
- *Transfer of business by SEBI registered intermediaries to other legal entity*

CAPITAL MARKETS SNAPSHOT

- *CNX Nifty, BSE Sensex, India VIX, $/₹, GIND 10Y*

Countries	GDP			CPI		Current Account Balance	Budget Balance	Interest Rates
	Latest	2016*	2017*	Latest	2016*	% of GDP, 2016*	% of GDP, 2016*	(10YGov), Latest
Brazil	-2.9Q3	-3.4	0.9	7.0 Nov	8.3	-1.1	-6.4	11.8
Russia	-0.4Q3	-0.5	1.2	5.8 Nov	7.0	2.4	-3.7	8.60
India	**7.3 Q3**	**7.2**	**7.5**	**3.6 Nov**	**4.9**	**-0.9**	**-3.8**	**6.51**
China	6.7 Q3	6.7	6.4	2.3 Nov	2.0	2.5	-3.8	3.10^
S Africa	0.7 Q3	0.4	1.3	6.6 Nov	6.3	-4.0	-3.4	9.00
USA	1.6 Q3	1.6	2.2	1.7 Nov	1.3	-2.6	-3.2	2.56
Canada	1.3 Q3	1.2	1.9	1.5 Oct	1.5	-3.5	-2.5	1.78
Mexico	2.0 Q3	2.1	1.9	3.3 Nov	2.8	-2.8	-3.0	7.31
Euro Area	1.7 Q3	1.6	1.3	0.6 Nov	0.2	3.2	-1.8	0.25
Germany	1.7 Q3	1.8	1.4	0.8 Nov	0.4	8.8	1.0	0.25
Britain	2.3 Q3	2.0	1.1	1.2 Nov	0.6	-5.7	-3.7	1.55
Australia	1.8 Q3	2.9	2.8	1.3 Q3	1.3	-3.5	-2.1	2.86
Indonesia	5.0 Q3	5.0	5.2	3.6 Nov	3.5	-2.1	-2.6	7.93
Malaysia	4.3 Q3	4.3	4.6	1.4 Oct	1.9	1.8	-3.4	4.31
Singapore	1.1 Q3	1.3	2.0	-0.1 Oct	-0.6	21.5	21.5	2.49
S Korea	2.6 Q3	2.7	2.5	1.5 Nov	0.9	7.2	-1.3	2.17

ECONOMIC DATA SNAPSHOT

- *Global GDP, CPI, Current account balance, budget balance, Interest rates*

Shape of Things to come: Impact of COVID-19 and Trends in General Insurance Industry

Mr. Tapan Singhel
MD & CEO
Bajaj Allianz General Insurance

The novel coronavirus pandemic has exposed the fragility of our system. It has once again showed us how susceptible we are to natural forces. However, it has also proved the resilience and indomitability of human spirit. It has been more than a year since first lockdown was imposed, prodding corporates and businesses to rapidly revamp their business model and accelerating digital adoption.

General Insurance Industry too witnessed various first of its kind experiments and solutions. The swiftness with which industry reacted to the pandemic by coming with cover against COVID-19 was unique. Any insurance product has multilayer complexities and requires a deep understanding of the risk associated. This precisely is the reason why turnaround time of launching an insurance product has been historically long. However, COVID-19 nudged the industry to come up with products to cover the risk within a really tight timeline. We also observed that people belonging to age group of 25-45 years opted for Corona Kavach the most. Many of them were first time insurance buyers. This shows that the next gen. is interested to buy the cover which meets their requirement and is affordable. We as insurers have to understand the psyche of this generation which is used to instant and customized solutions to their problems and design products accordingly. Product like 'pay as you consume' in motor insurance has made us realize that a significant population is ready to buy need-based policies. Customized, ticket sized, affordable products attract youth and are need of the hour.

Where there is a challenge, there also lies an opportunity. This holds true for COVID-19 as well. Automation and digitization is the future and we at Bajaj Allianz General Insurance have been working relentlessly over the years towards digitalization in insurance space. COVID-19 gave us the opportunity to propel our efforts in the same direction. We are working to make the entire insurance journey seamless and lucid. We have come up with various app-based solutions that settle claims in different segments of insurance like motor, health and property within minutes. The idea is to make insurance as smooth as possible for our customers. In time to come, insurance industry will witness a complete overhaul driven by technology. Technology will also help fuel the efforts to penetrate insurance in small towns and remote corners of the country. We are witnessing increased economic activity in Tier II and Tier III cities, this coupled by new infrastructure projects provides the ripe environment for insurers to make inroads in new territories.

In addition to this, e-commerce will continue to play a vital role in penetration of sachet products. We already have right product at right point, like mobile insurance aligned with purchase of smartphones or cyber insurance along with digital devices. We have also seen e-commerce players partnering with insurers to foray into traditional products like motor insurance. This trend will continue to drive product innovation.

On the product side, COVID-19 has definitely showcased the need of health insurance to the masses. Health insurance sales saw a clear spike last year. The pandemic showed that with rising medical expenses, having a health insurance is not only advisable but also requisite. This will go a long way in increasing the awareness and penetration of health insurance in the country.

Products like Cyber insurance, business interruption insurance have also gained traction. Work from home has become ubiquitous, today exposure to cyber risk is higher than ever. Many companies are working towards moving their entire operations in virtual space. This has caused an unprecedented rise in queries pertaining to cyber insurance. Likewise, the pandemic interrupted operations of many businesses and corporates are realizing that each and every aspect of business is risk prone. People are looking for holistic and comprehensive products to cover their risk. We will see evolution of many such products which were considered niche till now.

Another new development that's taking place is standardization in products by regulator. In this situation insurers will have to focus on servicing the policy. Apart from premium, services will be the most crucial differentiator for the insurers to win and sustain the customers.

Lastly, I strongly advice contribution towards pandemic pool. Which is pooling of funds by both private and public sectors to help cover the economic losses resulting from pandemic-induced lockdown. The pandemic cover can be a mandatory add-on cover, along with the property policies for corporates. The pandemic has proved that business across sectors are susceptible to risks. A pandemic pool will help us to be prepared for future. The regulator has been proactive on this front and we already have a draft guideline on this which should be solidified soon, bringing much needed relief going forward for similar contingencies.

Overall, I envision that insurance industry will witness a transition towards a more lucid, transparent and seamless future. The pandemic has pushed Indian insurance industry towards an evolution, and a journey which aims at making insurance a pull product from a push product!

*Views are personal. Neither APAS nor any of its employees endorse any view, products or services mentioned in the article.

Journey of NBFC Sector in India

NBFCs which are heterogeneous in nature in terms of activities and size are important financial intermediaries and an integral part of the financial system in India. They have been able to carve out a niche for themselves in meeting the credit needs of both wholesale and retail customers.

NBFCs in India made a humble beginning way back in the 1960s to serve the need of the savers and investors whose financial requirements were not sufficiently covered by the existing banking system in India. The NBFCs began to invite fixed deposits from investors and work out leasing deal for big industrial firms. Initially, they operated on a limited scale and could not make a significant impact on the financial system.

During the first stages of their development, this business of financing was regulated by the Companies Act. At that time, a need was felt that due to the unique and complex nature of operations and financial companies acting as financial intermediaries, there should be a separate regulatory mechanism.

Accordingly, Chapter III-B was included in the RBI Act, 1934, assigning limited authorities to the RBI to regulate deposit taking companies. The RBI has since initiated measures to bring the NBFC sector within the realm of its regulation.

The RBI accepted and implemented the key recommendations of James S Raj Study Group formed in 1975, that financial companies be allowed gearing of 10 times. As per the salient features of the directions, the hire purchase and leasing companies could accept deposits to the extent of their net owned funds. The directions also required the companies to maintain liquid assets in the form of unencumbered approved government securities.

Between 1980s and 1990s, NBFCs gained good ground and started to attract a huge number of investors owing to their customer friendly reputation. Since the days of liberalisation, privatisation and globalisation (LPG, started in 1991), there has been a mushrooming growth of NBFCs. The number of NBFCs grew from a mere 7,000 in 1981 to around 30,000 in 1992. This is when the RBI felt that it was becoming increasingly onerous for it to regulate the industry. In 1992, the RBI formed a Committee headed by AC Shah, former Chairman of Bank of Baroda, to suggest measures for effective regulation of the industry. The Shah Committee gave its recommendations, which ranged from compulsory registration to prudential norms.

January 1997 witnessed drastic changes in the RBI Act, 1934, especially the Chapters III-B, III-C and V of the Act, with the fundamental objective of putting in place a complete regulatory and supervisory structure, aimed at protecting the interests of depositors as well as ensuring the robust functioning of NBFCs.

In the period following the amendment of the Act in 1997, the NBFCs have evolved substantially in terms of operations, variety of market products and instruments, technological sophistication, etc.

In the last 20 years, the NBFCs have gained much significance by adding depth to the overall financial sector. In light of the growing significance of NBFCs as a key player in broadening the financial base of India, it generates paramount academic and research interests to delve deep into its onset, growth and performance. In August 2016, the union cabinet gave nod for FDI under the automatic route in regulated NBFCs.

The NBFC crisis started in September 2018, with the failure of one of the most respected NBFCs in India, IL&FS, followed by struggles at DHFL, Reliance Capital and Altico Capital. This NBFC crisis is unique in the sense that it is both a driver and a reflection of the economic slowdown. As NBFCs struggled in the wake of a general wave of fear relating to the sector after the IL&FS crisis, banks cut down on their NBFC exposures, further exacerbating NBFCs' funding positions. When lending by and to NBFCs goes down, demand in multiple sectors is affected, creating a vicious cycle.

On 12 June 2020, RBI had constituted internal working group (IWG), headed by Mr. PK Mohanty to audit extant ownership guidelines and corporate structure for private sector banks of India. The IWG, in a progression of recommendations, has suggested the guarded entry of corporate houses into the banking space, conversion of NBFCs into banks and payments banks into SFB, hike in promoters' stake, amongst others. The committee also sought comments on its recommendations from stakeholders and members of the public.

The proposed measures are well designed with a futuristic mindset to expand the banking network that should help the economy reach its growth potential. Looking to the strategic role of banks in harnessing entrepreneurial potentiality, the present size and activity of banks fall short of the needs. The inadequacy has become more glaring in the current crisis, when banks have a critical responsibility to bail out distressed entrepreneurs using innovation, regardless of the risks and with some aggression. Lacking in capital and with bulging NPAs, banks do not have the wherewithal to act effectively and reach out in support of the masses.

The recommendation to allow large NBFCs owned by corporates/private entrepreneurs with asset size of INR 50,000 crore and above to convert into banks is a well thought out move to increase the size of the banking system itself. With at least 10 years as shadow banks, they would have a different approach to credit appraisal, risk-based pricing, monitoring and recovery strategies.

The RBI has also recently released a discussion paper suggesting a tougher regulatory framework for the NBFC sector to prevent recurrence of any systemic risk to the country's financial system. The discussion paper proposes the revised regulatory framework, which is formulated on a scale-based approach. It has proposed a four-layered regulatory structure for NBFCs with progressive increase in intensity of regulation. The NBFCs will be split into 4 layers – base, middle, upper and top. The classification of the NBFCs will be based on a host of parameters, including size, leverage, interconnectedness, substitutability, complexity and nature of activity, among others.

Over the years, the NBFC sector has undergone considerable evolution. Higher risk appetite of NBFCs has contributed to their size, complexity and interconnectedness, making some of the entities systemically

significant, posing potential threat to financial stability. While NBFCs are under RBI's regulation since 1964, the central bank introduced a comprehensive regulatory framework for the systemically important NBFCs in 2006, which was further refined in 2014. Accordingly, within the universe of systemically important NBFCs, an additional identifier has been placed at INR 5,000 crore, wherein additional regulations have been made applicable to such large NBFCs.

The base layer will consist of NBFCs currently classified as non-systemically important non-deposit taking NBFCs, besides Type I NBFCs, NOFHC, NBFC-P2P and NBFC-AA (account aggregator).

The current threshold for systemic importance is INR 500 crore. This threshold needs recalibration, taking into account increase in general price levels as well as increase in real GDP since 2014. The paper proposes to raise this threshold to INR 1,000 crore.

The middle layer will consist of all non-deposit taking NBFCs classified currently as NBFC-ND-SI and all deposit taking NBFCs.

The upper layer would comprise only those NBFCs which are specifically identified as systemically significant, based on a set of parameters.

The top layer is supposed to remain empty. The layer can get populated in case the RBI takes a view that there has been unsustainable increase in the systemic risk spill-overs from specific NBFCs in the upper layer. Such NBFCs judged to be extreme in supervisory risk perception would be pushed to the top layer from the upper layer. NBFCs in this layer will be subject to higher capital charge, including capital conservation buffers. There will be enhanced and more intensive supervisory engagement with these NBFCs.

With these enhanced regulations, it would make sense for some large NBFCs to explore the option of converting to banks.

While all the above reforms announced by RBI are positive and steps in the right direction, their impact on the NBFC sector and the economy at large remains to be seen.

-APAS

ECONOMY

IIP (Index of Industrial Production) – January

Index of Industrial Production (IIP) or factory output for the month of January 2021 witnessed a contraction of 1.6%, compared to a growth of 1.6% in December 2020 and 2.2% in January 2020.

The General Index for the month of January 2021 stands at 135.2, which is 1.6% lower as compared to January 2020.

The manufacturing sector, which constitutes 77.63% of the index, declined by 2% in January, to 135.1.

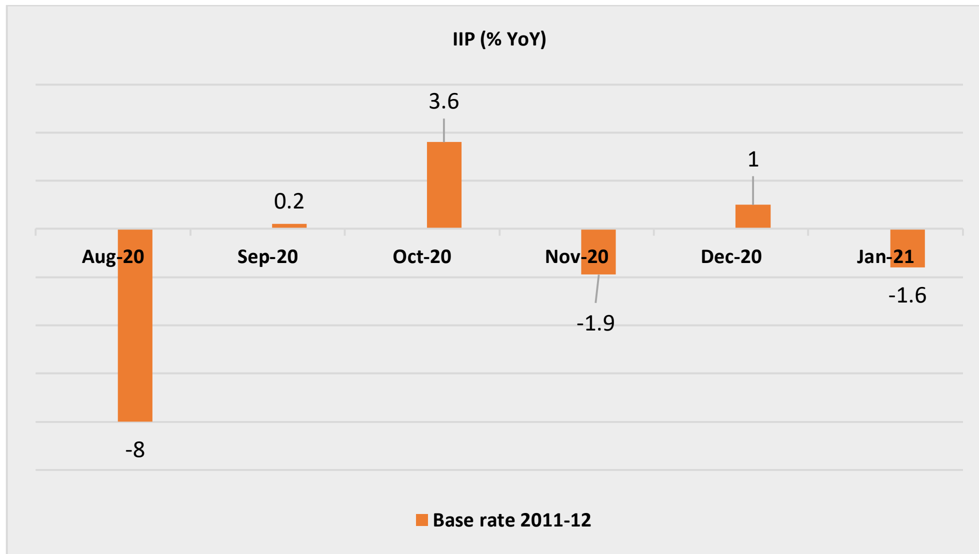
Mining sector output contracted by 3.7%, to 119.7.

Electricity generation rose by 5.5%, to 164.2.

As per Use-based classification, the indices stand at 133.7 for primary goods, 92.6 for capital goods, 147.6 for intermediate goods and 147.1 for infrastructure/construction goods for January.

Further, the indices for consumer durables and consumer non-durables were at 123.7 and 147.5, respectively.

The IIP for April-January period has contracted by 12.2%. It had registered a growth of 0.5% during the same period last fiscal.



Source: APAS BRT, www.mospi.gov.in

CPI (Consumer Price Index) – February

India's consumer price index (CPI) or retail inflation rose to a 3-month high of 5.03% in February 2021, compared to 4.06% in January 2021 and 6.58% in February 2020.

The corresponding provisional inflation rates for rural and urban areas are 4.19% and 5.96% respectively.

The core CPI inflation rose to 5.59% in February 2021 from 5.33% in January 2021.

The Consumer Food Price Index (CFPI) jumped to 3.87% in February from 1.96% in January.

Among the CPI components, inflation for food and beverages rose to 4.25% in February from 2.67% in January.

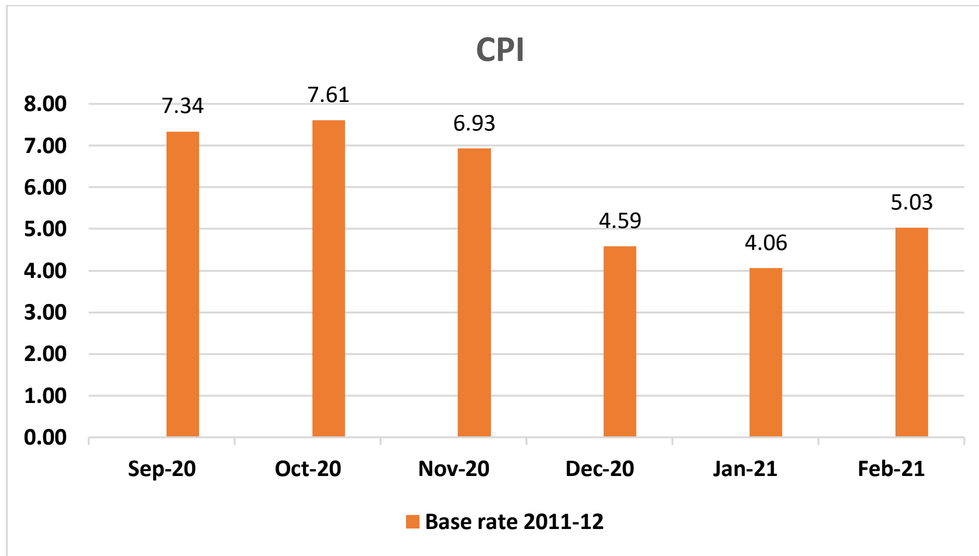
The rise in the food basket was led by a rise in prices of oils and fats, which rose 20.78% in February, while that of pulses and products rose 12.54%. Non-alcoholic beverages gained 13.92%, while meat and fish segment also witnessed a rise of 11.34% and egg prices too rose 11.13%. Vegetable prices, however, slipped 6.27%. Inflation in fruits rose to 6.28%.

The inflation for pan, tobacco and intoxicants stood at 10.7%.

The inflation for housing stood at 3.23%, while that for miscellaneous items was at 6.82% in February.

Within the miscellaneous items, the inflation rose for transport and communication to 11.36%, personal care and effects to 8.65%, household goods and services to 3.07%, recreation and amusement to 5.8% and health to 6.33%, while it declined for education to 2.11% in February 2021.

The inflation for clothing and footwear rose to 4.21%, while that for fuel and light stood at 3.53% in February.



Source: APAS BRT, www.mospi.gov.in

WPI (Wholesale Price Index) – February

India's wholesale price index (WPI) inflation rose to a 27-month high of 4.17% in February 2021, as compared to 2.03% in January 2021 and 2.26% in February 2020.

The rate of inflation based on WPI Food Index increased to 3.31% in February 2021 from -0.26% in January 2021.

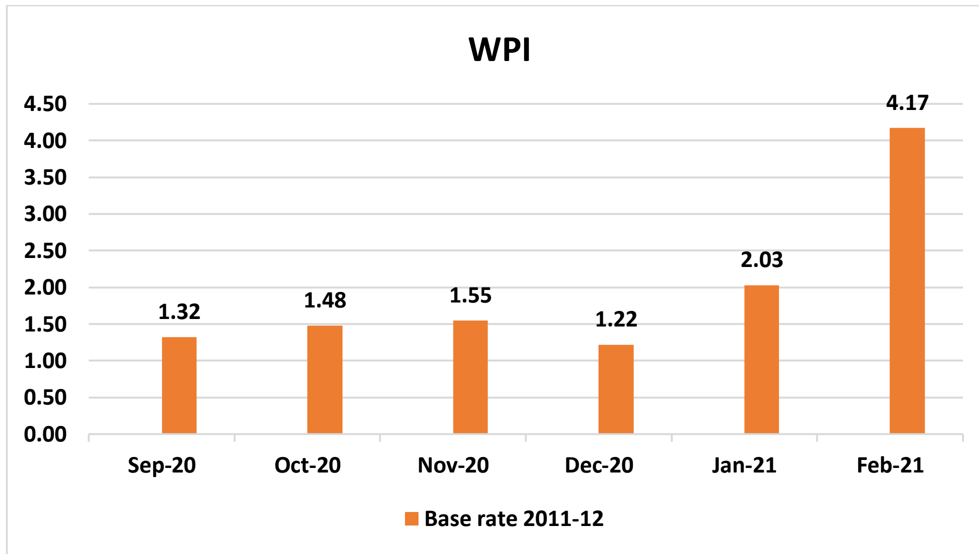
The index for primary articles increased by 1.04% from the previous month.

Prices increased for minerals (9.4%), crude petroleum and natural gas (6.5%) and food articles (0.51%). Prices declined for non-food articles (0.51%).

The index for fuel and power increased by 4.51% from the previous month.

Prices increased for mineral oils (8.88%), prices declined for electricity (0.43%), while prices of coal remained unchanged.

The index for manufactured products increased by 0.64% from the previous month.



Source: APAS BRT, www.eaindustry.nic.in

Manufacturing PMI – February

The Nikkei India Manufacturing Purchasing Managers' Index (PMI) remained steady in February despite cost inflation pressures.

The Manufacturing PMI eased slightly to 57.5 in February 2021 from 57.7 in January 2021. It stayed above the 50 level, that separates expansion from contraction, for the seventh straight month.

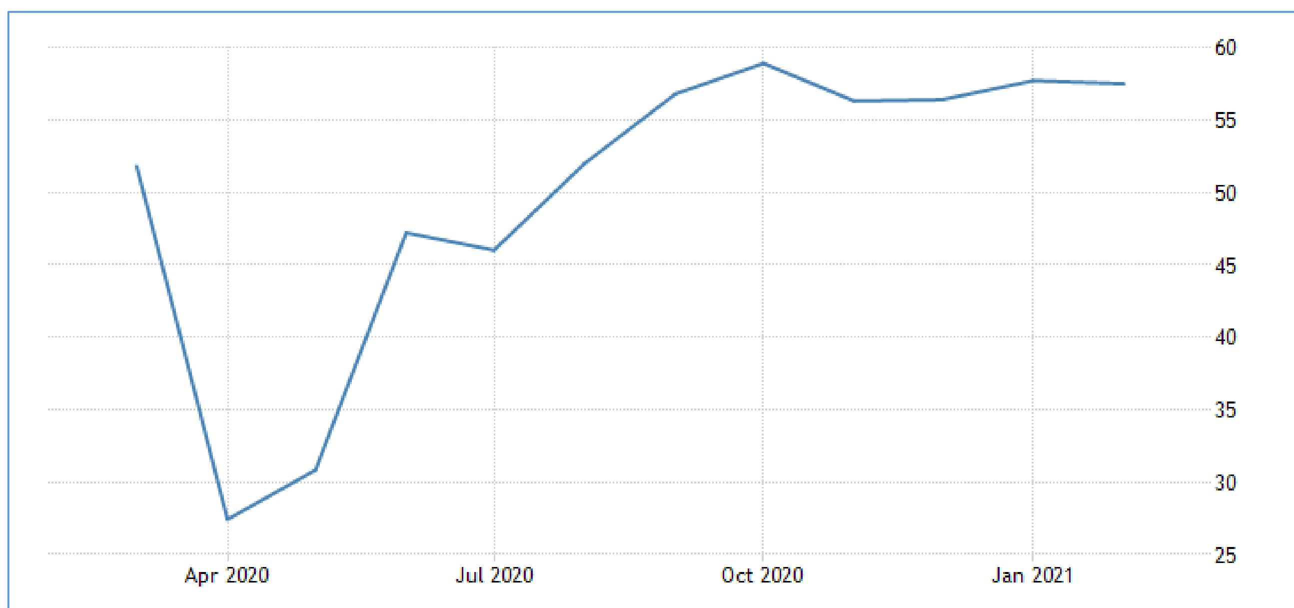
It still signalled a strong month of expansion in the manufacturing sector.

Output and new orders continued to grow at solid rates, while employment continued to decline.

On the price front, input cost inflation accelerated to a 32-month high, due to a faster rise in prices of chemicals, metals, plastics and textiles.

As a result, output charges rose modestly.

Finally, business sentiment remained positive, amid forecasts of an improvement in economic conditions and the lifting of restrictions as the vaccination programme expands.



Source: www.tradingeconomics.com

Services PMI – February

The Indian services sector activity expanded at the fastest rate in a year during February.

The Nikkei India Services Purchasing Managers' Index (PMI) Business Activity Index rose to 55.3 in February 2021 from 52.8 in January 2021. The index stayed above the neutral mark of 50, which separates expansion from contraction, for the fifth straight month.

The reading pointed to the steepest month of expansion since February last year, as new order growth picked up to a year high despite a continued fall in export sales.

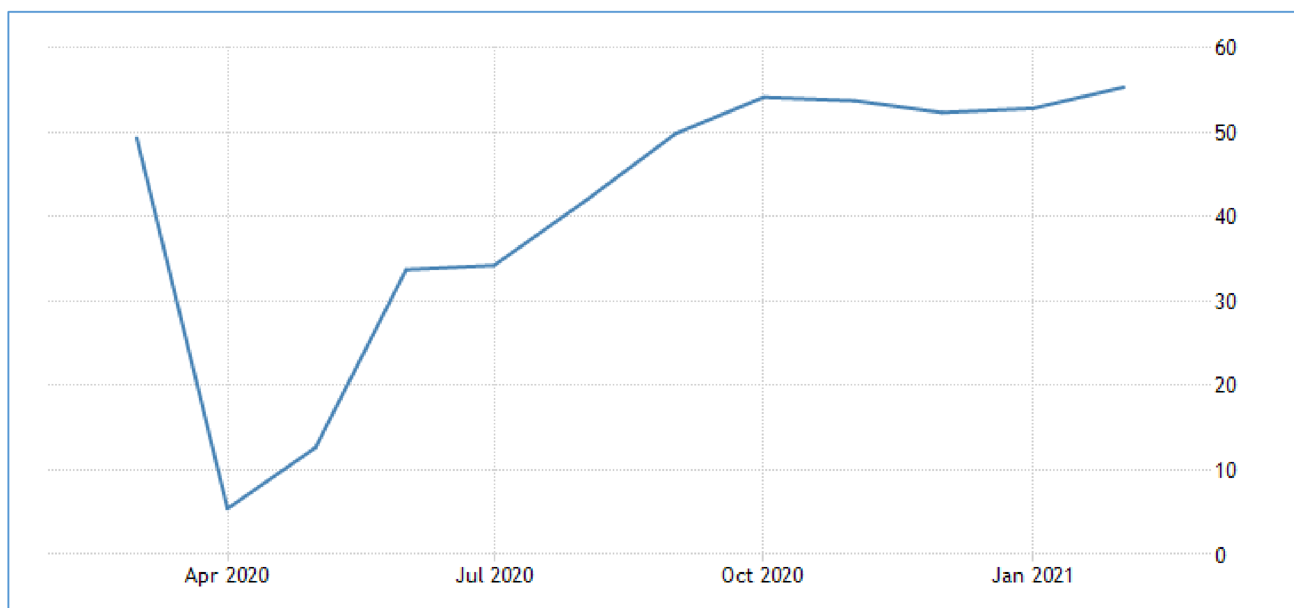
At the same time, the pace of job shedding accelerated, but was moderate overall.

On the price front, input cost inflation was the strongest since February 2013, amid reports of higher freight, fuel and retail prices.

Meanwhile, selling prices were stable.

Looking ahead, business sentiment improved to a 1-year high, as the rollout of Covid-19 vaccines underpinned positive expectations towards growth prospects.

The seasonally adjusted Nikkei India Composite PMI Output Index rose to 57.3 in February from 55.8 in January.



Source: www.tradingeconomics.com

Core Sector Data – February

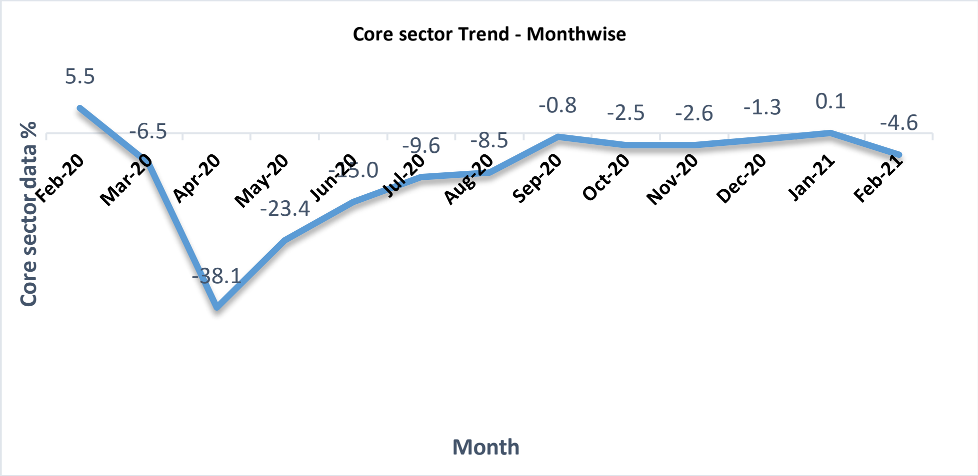
Growth of eight infrastructure sectors contracted by 4.6% in February 2021, the steepest contraction in the last 6 months.

The eight core sectors – coal, crude oil, natural gas, refinery products, fertilizers, steel, cement and electricity – had grown by 0.9% in January 2021 and 6.4% in February 2020.

All the key segments, including coal, crude oil, natural gas, refinery products, fertilisers, steel, cement and electricity, witnessed a decline in production in February 2021.

The output of coal, crude oil, natural gas, refinery products, fertiliser, steel, cement and electricity, declined by 4.4%, 3.2%, 1%, 10.9%, 3.7%, 1.8%, 5.5% and 0.2%, respectively.

Cumulatively, the growth in the eight core sectors during April-February 2020-21 contracted by 8.3%, as against an expansion of 1.3% in the same period last financial year.



Source: APAS BRT, www.eaindustry.nic.in

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BANKING

Resolution of the Monetary Policy Committee (MPC) April 5-7, 2021

On the basis of an assessment of the current and evolving macroeconomic situation, the Monetary Policy Committee (MPC) at its meeting (April 7, 2021) decided to:

- keep the policy repo rate under the liquidity adjustment facility (LAF) unchanged at 4.0 per cent.

Consequently, the reverse repo rate under the LAF remains unchanged at 3.35 per cent and the marginal standing facility (MSF) rate and the Bank Rate at 4.25 per cent.

- The MPC also decided to continue with the accommodative stance as long as necessary to sustain growth on a durable basis and continue to mitigate the impact of COVID-19 on the economy, while ensuring that inflation remains within the target going forward.

These decisions are in consonance with the objective of achieving the medium-term target for consumer price index (CPI) inflation of 4 per cent within a band of +/- 2 per cent, while supporting growth.

The main considerations underlying the decision are set out in the statement below.

Assessment

Global Economy

Since the MPC's meeting in February, lingering effects of the slowdown in the global economy in Q4 of 2020 have persisted, although recent arrivals of high frequency indicators suggest that a gradual but uneven recovery may be forming. The much anticipated boost to economic activity from the vaccination rollouts is being somewhat held back by new mutations of COVID-19, second and third waves of infections across countries and unequal access to vaccines more generally. World trade activity improved in Q4:2020 and January 2021. There are, however, concerns due to COVID-19-related fresh lockdowns and depressed demand in a few major economies, escalation in shipping charges and container shortages. Inflation remains benign in major advanced economies (AEs), although highly accommodative monetary policies and large fiscal stimuli have added to concerns around market-based indicators of inflation expectations, unsettling bond markets globally. In a few emerging market economies (EMEs), however, inflation is ruling above targets, primarily driven by firming global commodity prices. This has even prompted a few of them to raise policy rates. Equity and currency markets have been turbulent with the increase in long-term bond yields and the steepening of

yield curves. More recently, however, calm has returned and major equity markets have scaled new peaks in March, while currencies are trading mixed against a generally firming US dollar. With the bond markets sell-offs, EME assets came under selling pressure and capital outflows imposed depreciating pressures on EME currencies in March.

Domestic Economy

The second advance estimates for 2020-21 released by the National Statistical Office (NSO) on February 26, 2021 placed India's real gross domestic product (GDP) contraction at 8.0 per cent during the year. High frequency indicators – vehicle sales; railway freight traffic; toll collections; goods and services tax (GST) revenues; e-way bills; and steel consumption – suggest that gains in manufacturing and services activity in Q3:2020-21 extended into Q4.

System liquidity remained in large surplus in February and March 2021 with average daily net liquidity absorption of ₹5.9 lakh crore. Driven by currency demand, reserve money (RM) increased by 14.2 per cent (y-o-y) as on March 26, 2021. Money supply (M3) grew by 11.8 per cent as on March 26, 2021 with credit growth at 5.6 per cent. Corporate bond issuances at ₹6.8 lakh crore during 2020-21 (up to February 2021) were higher than ₹6.1 lakh crore during the same period last year. Issuances of commercial paper (CPs) turned around since December 2020 and were higher by 10.4 per cent during December 2020 to March 2021 than in the same period of the previous year. India's foreign exchange reserves increased by US$ 99.2 billion during 2020-21 to US$ 577.0 billion at end-March 2021, providing an import cover of 18.4 months and 102 per cent of India's external debt.

The MPC noted that the supply side pressures on inflation could persist. It also notes that demand-side pull remains moderate. While cost-push pressures have risen, they could be partially offset with the normalisation of global supply chains. On imported inflation from global commodity prices, urgent concerted and coordinated policy actions by Centre and States can mitigate domestic input costs such as taxes on petrol and diesel and high retail margins. The renewed jump in COVID-19 infections in certain parts of the country and the associated localised lockdowns could dampen the demand for contact-intensive services, restrain growth impulses and prolong the return to normalcy. In such an environment, continued policy support remains necessary. Taking these developments into consideration, the MPC decided to continue with the accommodative stance as long as necessary to sustain growth on a durable basis and continue to mitigate the impact of COVID-19 on the economy, while ensuring that inflation remains within the target going forward.

Framework for processing of e-mandates for recurring online transactions

As per an earlier announcement by Reserve Bank of India (RBI), wherein the framework for registering e-mandates for recurring online transactions using cards / wallets / Unified Payments Interface was put in place. The framework had ensured that changing payment needs of customers were accommodated by adequately balancing safety, security and convenience of such transactions. Stakeholders had been given sufficient time to complete the process of migration to the framework by March 31, 2021.

RBI, however, noted that the progress of on-boarding existing as well as new mandates of customers as per the framework has not been satisfactory. Keeping in view the requests of some stakeholders and to prevent any inconvenience to customers, RBI has been decided, as a one-time measure, to extend the timeline for ensuring full compliance to the framework till September 30, 2021. During the extended timeline, no new

mandate for recurring online transactions shall be registered by stakeholders, unless such mandates are compliant with the framework.

Guidelines on Regulation of Payment Aggregators and Payment Gateways

As per an earlier circular by RBI, the authorised Payment Aggregators (PAs) and the merchants on-boarded by them can store customer card credentials within their database or server. In this regard, in view of several representations by industry, seeking time to put in place workable solutions around this, RBI has decided to place as a one-time measure to extend the timeline for non-bank PAs by six months i.e. 31st December 2021 to enable the payment system providers and participants to put in place workable solutions, such as tokenization, within the framework set by RBI. The detailed guidelines on tokenization cover following areas:

1. Authorization, capital and net-worth
2. Governance related
3. KYC and merchant on-boarding related
4. Security, fraud prevention and risk management framework related
5. Settlement and escrow account related

INSURANCE

Insurance (Amendment) Act,2021

As per an Amendment in Insurance Act 2021, the Parliament in Budget 2021 announced that following sub-clause:

"Indian insurance company" means any insurer being a company-:

in which the aggregate holdings of equity shares by a foreign company, either by itself or through its subsidiary companies or its nominees, do not exceed forty nine percent paid-up equity capital of such Indian insurance company;

Shall be substituted by subsequent given clause:

"in which the aggregate holdings of equity shares by foreign investors including portfolio investors, do not exceed seventy-four per cent. of the paid-up equity capital of such Indian insurance company, and the foreign investment in which shall be subject to such conditions and manner, as may be prescribed by the Government."

Dividend Criteria for Equity Investment under "Approved Investment"

Considering the representations made by Life and General Insurance Councils, the Authority has permitted Insurers to classify investments in Preference Shares and Equity Shares as a part of "Approved Investment" if such Shares have paid dividend "*for at least 2 years out of 3 consecutive years immediately preceding* " instead of "*for at least 2 consecutive years immediately preceding*" for the period from 1st April, 2020 to 30th Sep, 2021.

Standard products on Fire and Allied perils insurance business

On 4th January, 2021, the Authority had announced the launch of the following three standard products by all general insurers carrying on the business of Fire and Allied perils insurance business, with effect from 1st April, 2021

(i) Bharat Griha Raksha (meant for Residential Buildings and Home Contents)

(ii) Bharat Sookshma Udyam Suraksha (meant for enterprises where the total value at risk at any one location is upto Rs. 5 Crore)

(iii) Bharat Laghu Udyam Suraksha (meant for enterprises where the total value at risk at any one location is more than Rs. 5 Crore and upto Rs. 50 Crore)

INFRASTRUCTURE & OTHER GOVT. INITIATIVES

Foreign Trade Policy 2015-2020 extended for 6 months till September 2021

The Union Commerce and Industry Ministry announced extension of the Foreign Trade Policy (FTP) of Government of India. The present Policy which came into force on 1st April 2015, was for 5 years and was extended thereafter upto 31st March, 2021. In view of the unprecedented situation arising out of the pandemic Novel COVID-19, which is persisting, the Government has decided to continue benefits under various export promotion schemes by extending existing Foreign Trade Policy by another six months i.e. up to 30th September, 2021 which will provide continuity in the policy regime. Similar extension is made in the related procedures, by extending validity of HandBook of Procedures.

Exemption from payment of IGST and Compensation Cess on the imports made under Advance/EPCG Authorisations and by EOUs etc. has also been extended up to 30.09.2021. Similarly, validity period of the Status Holder Certificates is also extended. This will enable the Status Holders to continue to avail the specified facilities/benefits.

CAPITAL MARKETS

Review of norms regarding investment in debt instruments with special features, and the valuation of perpetual bonds

Mutual Funds invest in certain debt instruments with special features viz. subordination to equity (absorbs losses before equity capital) and /or convertible to equity upon trigger of a pre-specified event for loss absorption. Additional Tier I bonds and Tier 2 bonds issued under Basel III framework are some instruments which may have above referred special features. The debt instruments having such special features as referred above, which otherwise are Non-Convertible Debentures, may be treated as debt instruments until converted to equity.

Further, presently there are no specified investment limits for these instruments with special features and these instruments may be riskier than other debt instruments. Therefore, following prudential investment limits have been decided for such instruments.

i. No Mutual Fund under all its schemes shall own more than 10% of such instruments issued by a single issuer.

ii. A Mutual Fund scheme shall not invest – a. more than 10% of its NAV of the debt portfolio of the scheme in such instruments; and b. more than 5% of its NAV of the debt portfolio of the scheme in such instruments issued by a single issuer.

The investments of mutual fund schemes in such instruments in excess of the limits specified above as on the date of this circular may be grandfathered and such mutual fund schemes shall not make any fresh investment in such instruments until the investment comes below the specified limits.

SEBI also issued valuation norms, described in detail in next article.

Clarification on the valuation of bonds issued under Basel III framework

Security and Exchange Board of India (SEBI) via an earlier circular had stated that the maturity of all perpetual bonds shall be treated as 100 years from the date of issuance of the bond for the purpose of valuation.

In view of representations from the mutual fund industry, SEBI revised such norms as below:

Time Period	Deemed residual maturity of Basel III AT-1 bonds (years)	Deemed residual maturity of Basel III Tier 2 bonds
Till March 31, 2022	10	10 years or contractual maturity whichever or earlier
April 01, 2022-30 September 2022	20	Contractual maturity
October 01, 2022 – March 31 2023	30	Contractual maturity
April 01, 2023 onwards	100*	Contractual maturity

*100 years from the date of issuance

Macaulay duration for bonds issued under Basel III framework shall be calculated based on the deemed residual maturity as mentioned in the above table.

Further, if the issuer does not exercise call option for any ISIN then the valuation and calculation of Macaulay Duration shall be done considering maturity of 100 years from the date of issuance for AT-1 Bonds and Contractual Maturity for Tier 2 bonds, for all ISINs of the issuer. In addition to the above, if the non-exercise of call option is due to the financial stress of the issuer or if there is any adverse news, the same shall be reflected in the valuation.

Review of delivery default norms

SEBI in its earlier circular had prescribed, inter-alia, provisions for the levy of penalty in the event of delivery default.

SEBI had received representations from market participants in the commodity derivatives segment for standardization of delivery default norms, strengthening the deterrent mechanism and ensuring adequate compensation to the non-defaulting counterparty.

In view of the above, the extant delivery default norms were examined in consultation with Clearing Corporations and SEBI has decided the following:

1. In agricultural commodities, the penalty for delivery default by seller shall now be 4% of the settlement price plus replacement cost.

2. In non-agricultural commodities, the penalty for delivery default by seller shall remain at 3 % of settlement price plus replacement cost.

3. In agricultural as well as non-agricultural commodities, the provisions for levy of penalty on delivery default by buyer, shall be put in place by the Clearing Corporations.

Accordingly, SEBI has issued following norms:

Penalty on seller in case of delivery default (default in delivery against open position at expiry in case of compulsory delivery contracts, default in delivery after giving intention for delivery) shall be as follows:

1. Futures contracts on agri-commodities: 4% of Settlement Price + replacement cost (difference between settlement price and average of three highest of the last spot prices of 5 succeeding days after the commodity pay-out date, if the average price so determined is higher than Settlement Price, else this component will be zero.)
2. Futures contracts on non-agri commodities: 3% of Settlement Price + replacement cost (difference between settlement price and higher of the last spot prices on the commodity pay-out date and the following day, if the spot price so arrived is higher than Settlement Price, else this component will be zero.)
3. Clearing Corporations / Exchanges shall have the flexibility to increase/decrease penalty for specific commodities depending on situation, in consultation with SEBI.
4. Norms for apportionment of penalty –
    a. At least 1.75% of Settlement Price shall be deposited in the Settlement Guarantee Fund (SGF) of the Clearing Corporation.
    b. Up to 0.25% of Settlement Price may be retained by the Clearing Corporation towards administration expenses
    c. (1% of Settlement Price in case of non-agri goods or 2% of settlement price in case of agri goods) plus replacement cost shall go to buyer who was entitled to receive delivery
5. In addition, Clearing Corporation may have appropriate deterrent mechanism (including penal/disciplinary action) in place against intentional/wilful delivery default.
6. In the case of a default by a buyer in both agricultural and non-agricultural commodities, following standard procedure shall be followed by the Clearing Corporations:
    a. The Clearing Corporation shall review the loss incurred by the non-defaulting Party, i.e. Seller, at its sole discretion, and accordingly, levy penalty on the defaulting buyer. However, such penalty shall be within the overall cap of delivery margins collected by the CCs, from such defaulting buyer.

Guidelines for Business Continuity Plan (BCP) and Disaster Recovery (DR) of Market Infrastructure Institutions (MIIs)

SEBI via its earlier circular has prescribed framework for Business Continuity Plan (BCP) and Disaster Recovery Site (DRS) for Stock Exchanges, Depositories and Clearing Corporations.

With advancement in technology and improved automation of processes, it was felt that the extant framework needs to be re-examined with a view to reducing the time period specified for moving from Primary Data Centre (PDC) to DRS.

Upon examination and based on consultation with MIIs and Technical Advisory Committee (TAC) of SEBI, the modified framework for BCP and DR shall be as under:

a. Stock Exchanges, Clearing Corporations and Depositories (collectively referred as Market Infrastructure Institutions – MIIs) shall have in place BCP and DRS so as to maintain data and transaction integrity.

b. Apart from DRS, all MIIs including Depositories shall also have a Near Site (NS) to ensure zero data loss.

c. The DRS should preferably be set up in different seismic zones and in case due to certain reasons such as operational constraints, change of seismic zones, etc., minimum distance of 500 kilometer shall be ensured between PDC and DRS so that both DRS and PDC are not affected by the same disaster.

d. The manpower deployed at DRS/NS shall have the same expertise as available at PDC in terms of knowledge/ awareness of various technological and procedural systems and processes relating to all operations such that DRS/NS can function at short notice, independently. MIIs shall have sufficient number of trained staff at their DRS so as to have the capability of running live operations from DRS without involving staff of the PDC.

e. All MIIs shall constitute an Incident and Response team (IRT)/ Crisis Management Team (CMT), which shall be chaired by the Managing Director (MD) of the MII or by the Chief Technology Officer (CTO), in case of non-availability of MD. IRT/ CMT shall be responsible for the actual declaration of disaster, invoking the BCP and shifting of operations from PDC to DRS whenever required. Details of roles, responsibilities and actions to be performed by employees, IRT/ CMT and support/outsourced staff in the event of any Disaster shall be defined and documented by the MII as part of BCP-DR Policy Document.

f. The Technology Committee of the MIIs shall review the implementation of BCPDR policy approved by the Governing board of the MII on a quarterly basis.

g. MIIs shall conduct periodic training programs to enhance the preparedness and awareness level among its employees and outsourced staff, vendors, etc. to perform as per BCP policy

II. Configuration of DRS/NS with PDC

III. DR drills/testing

IV. BCP-DR policy document

Transfer of business by SEBI registered intermediaries to other legal entity

SEBI has been receiving registration applications pursuant to transfer of business (SEBI regulated business activity) from one legal entity which is a SEBI registered Intermediary (transferor) to other legal entity (transferee). In this regard, following is clarified:

1. The transferee shall obtain fresh registration from SEBI in the same capacity before the transfer of business if it is not registered with SEBI in the same capacity. SEBI shall issue new registration number to transferee different from transferor's registration number in the following scenario: "Business is transferred through regulatory process (pursuant to merger / amalgamation / corporate restructuring by way of order of primary regulator /govt / NCLT, etc) or non-regulatory process (as per private agreement /MOU pursuant to commercial dealing / private arrangement) irrespective of transferor continues to exist or ceases to exist after the said transfer.

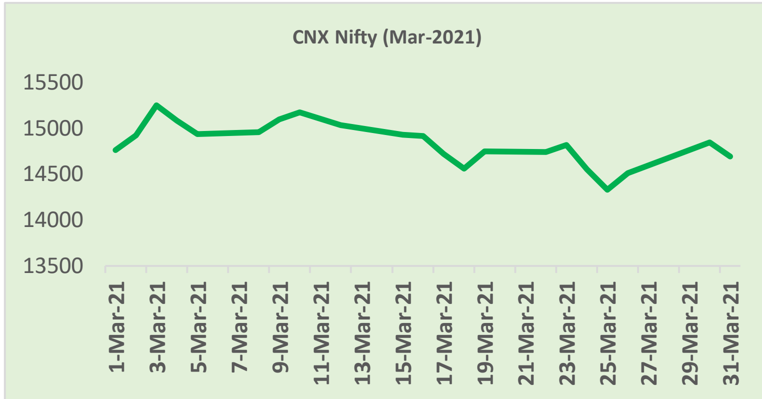
In case of change in control pursuant to both regulatory process and non-regulatory process, prior approval and fresh registration shall be obtained. While granting fresh registration to same legal entity pursuant to change in control, same registration number shall be retained.

If the transferor ceases to exist, its certificate of registration shall be surrendered.

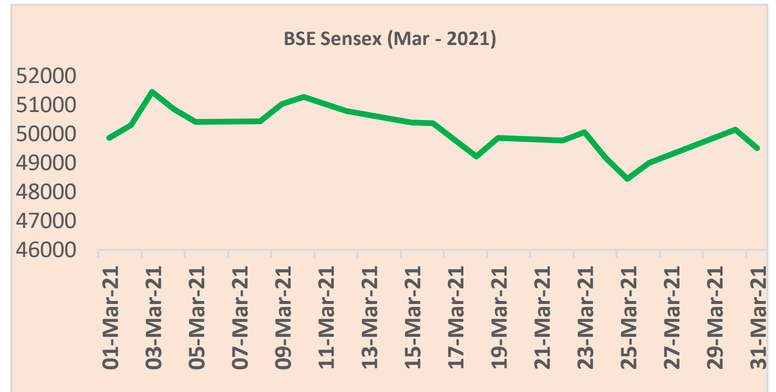
In case of complete transfer of business by transferor, it shall surrender its certificate of registration.

In case of partial transfer of business by transferor, it can continue to hold certificate of registration.

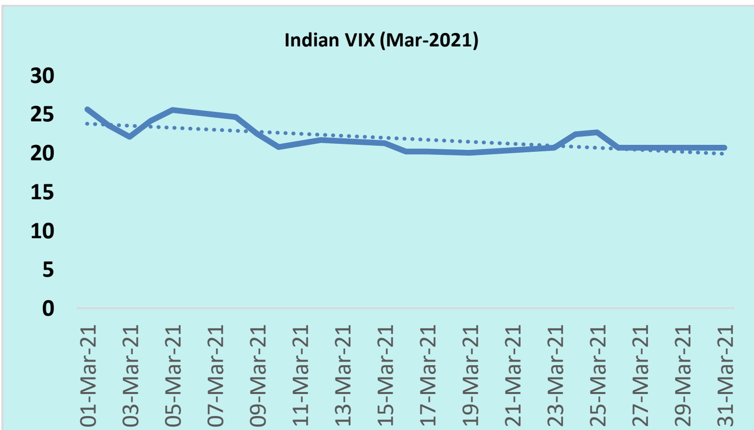
CAPITAL MARKETS SNAPSHOT



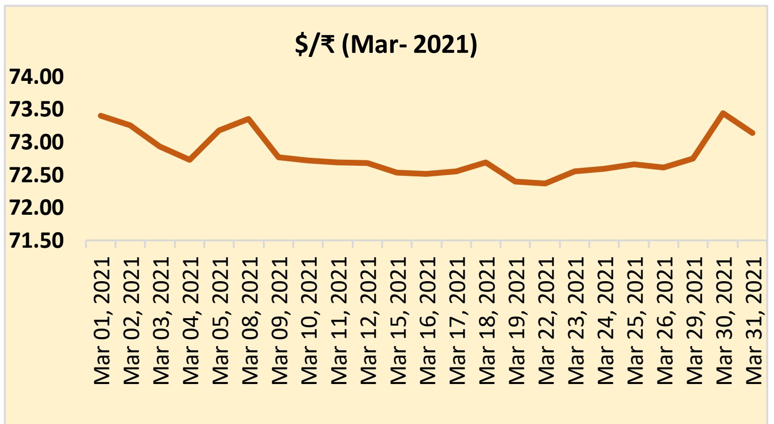
Source: National Stock Exchange



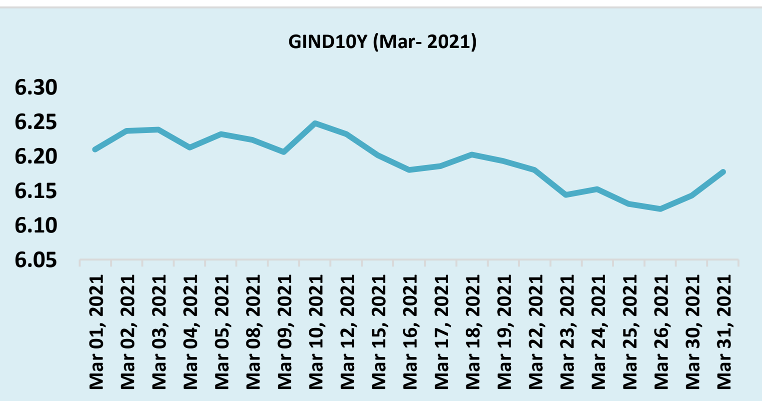
Source: Bombay Stock Exchange



Source: National Stock Exchange



Sources: APAS Business Research Team



Sources: APAS Business Research Team

The World Bank scaled up its projections for India's economic growth by 4.7 percentage points to 10.1% for fiscal 2022, due to strong rebound in private consumption and investment growth. The Bank had pegged India's GDP growth at 5.4% in its January report. According to RBI's latest monthly bulletin, the economy is set to come back on track sooner as the services sector, which was lagging, is bouncing back with inflation set to ease after June 2021. RBI said that household financial savings was at 10.4% of the nation's gross domestic product (GDP) in the July-September period of FY21, down from 21% of the GDP in Q1 of FY21.

ECONOMIC DATA SNAPSHOT

Countries	GDP			CPI		Current Account Balance	Budget Balance	Interest Rates
	Latest	2020*	2021*	Latest	2020*	% of GDP, 2020*	% of GDP, 2020*	(10YGov), Latest
Brazil	-1.1 Q4	3.2	2.3	5.2 Feb	6.7	-1.0	-7.6	9.62
Russia	-1.8 Q4	2.7	2.1	5.8 Mar	4.6	4.0	-1.7	7.43
India	**0.4 Q4**	**13.0**	**4.5**	**5.0 Feb**	**5.0**	**-0.8**	**-6.7**	**6.08**
China	6.5 Q4	8.5	5.0	-0.2 Feb	1.6	2.6	-4.8	3.06^
S Africa	-4.1 Q4	2.0	2.2	2.9 Feb	3.7	-1.2	-9.2	9.33
USA	-2.4 Q4	4.5	3.0	1.7 Feb	1.9	-2.8	-10.0	1.68
Canada	-3.2 Q4	-4.8	3.7	1.1 Feb	2.7	-2.1	-9.2	1.5
Mexico	-4.3 Q4	5.1	3.2	4.7 Mar	3.8	2.4	-2.8	6.24
Euro Area	-4.9 Q4	4.2	4.0	1.3 Mar	1.2	3.3	-5.9	0.0
Germany	-3.6 Q4	3.5	4.0	1.7 Mar	1.8	6.8	-4.0	0.0
Britain	-7.3 Q4	5.1	5.5	0.4 Feb	1.7	-3.9	-12.6	0.87
Australia	-1.1 Q4	2.8	2.3	0.9 Q4	1.6	1.1	-5.9	1.65
Indonesia	-2.2 Q4	3.3	5.0	1.4 Mar	2.8	-0.1	-6.5	6.43
Malaysia	-3.4 Q4	4.4	3.8	0.1 Feb	2.4	3.6	-6.3	3.08
Singapore	-2.4 Q4	4.8	3.2	0.7 Feb	1.8	16.5	-4.1	1.60
S Korea	-1.2 Q4	3.3	2.7	1.5 Mar	1.5	4.5	-4.7	2.06

Sources: The Economist

**** The Economist poll or Economist Intelligence Unit estimate/forecast;***

^ 5-year yield

Quarter represents a three-month period of a financial year beginning 1st April

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ABOUT APAS

APAS is a management advisory firm specializing in banking, financial services and the insurance space. APAS assists business leaders of some of the leading domestic and global organizations, acting as an extended arm to the management in coping with the ever changing internal and external dynamics. Leveraging deep business insights APAS develops business and operational strategy for its clients. APAS provides transaction advisory services (Buy, sell and merge), and also specializes in governance and board training. APAS facilitates investors and sellers with directional guidelines of pursuing transactions, by utilizing subject knowledge, vast experience and deep market outreach. APAS has capability to identify and analyze key transaction drivers, recognize possible partnerships, and initiate discussions with them for possible growth opportunity. We help major insurance companies, payment institutions, and other financial organizations to identify their growth potential, innovative opportunity and possible benefits of consolidation, and hence comprehend the possible merger or acquisition. Buying or selling a major asset or a business, undertaking a merger, or performing an IPO can be risky and complex especially in this globalization era. Hence, the need of a trusted advisor who can help clients preserve, create and enhance value in transactions.

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